Economic outlook

In brief

- South Africa’s economy continues to grow, but at a slower rate than previously expected. GDP growth is projected at 2.7 per cent in 2013, 3.5 per cent in 2014 and 3.8 per cent in 2015.
- Faster economic growth will require greater private investment and improved trade performance. As the policy environment becomes more stable, the global economy recovers and confidence returns, South Africa’s opportunities for growth will expand.
- Strong public-sector capital investment, additional electricity-generating capacity, relatively stable inflation, low interest rates and robust economic activity in southern Africa will contribute to a supportive environment for improved growth over the medium term.
- Moderate employment growth is expected over the next three years. Job creation prospects depend largely on private-sector hiring as fiscal pressures constrain public-sector employment growth.
- The current account deficit is forecast to average 6.2 per cent over the medium term. Consumer inflation is projected to remain within the 3-6 per cent target band over the next three years.
- Implementing the National Development Plan (NDP) will strengthen growth and accelerate job creation, while broadening social development and economic participation.

Overview

There are signs of improvement in the world economy. Policy actions during 2012 helped to avert new economic and fiscal crises in advanced economies. Yet buoyancy in world markets and improved sentiment should be assessed in the context of continued and widespread risk. Many advanced economies contracted during the fourth quarter of 2012 and global growth prospects are expected to improve only marginally, from 3.2 per cent in 2012 to 3.5 per cent in 2013. More rapid progress depends to a large degree on credible policy actions that promote increased confidence and investment, while securing fiscal sustainability.

South Africa’s economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget. GDP growth is expected to reach 2.5 per cent in 2012 and 2.7 per cent in 2013, accelerating to 3.8 per cent in 2015. Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation and low interest

GDP growth is a primary indicator of the health of an economy. Strong GDP growth generally indicates an economy where investment is increasing and jobs are being created. Since taxes are levied on economic activity, high GDP growth rates increase the size and value of the tax base that pays for public spending.
rates are expected to support improved growth rates over the medium term. But a far higher rate of growth is needed, particularly in the private sector, to tackle poverty, draw unemployed South Africans into economic activity and generate the revenue needed to support government’s long-term development plans.

The NDP provides a framework that can shift South Africa towards a new trajectory of economic growth and job creation. Over the medium term, focused attention to resolve problems in education, open the labour market to new entrants and strengthen the capacity of the state will ease current constraints to growth.

Macroeconomic stability provides the foundation for the strong and sustainable growth and job creation envisioned in the NDP by supporting investment and confidence, and ensuring that future liabilities can be met. The framework for the 2013 Budget safeguards fiscal sustainability, and targets low and stable inflation.

Concerted efforts by business, labour and government are needed to support the NDP and translate it into action. As government and the private sector take steps to implement the plan, progress will bolster business and consumer confidence, establish greater certainty about the economic trajectory and encourage more rapid investment.

### Global outlook

The International Monetary Fund (IMF) expects world economic growth to increase marginally from 3.2 per cent in 2012 to 3.5 per cent in 2013. Financial market volatility has declined but remains a concern, and recovery is uneven. Targeted monetary policy measures in advanced economies continue to ease financial conditions, boosting liquidity and asset prices. Emerging markets – particularly China and India – continue to lead global growth.

#### Table 2.1 Annual percentage change in GDP and consumer prices in selected regions/countries, 2012 – 2014

<table>
<thead>
<tr>
<th>Region / country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP projections&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td>Consumer price index projections&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>3.2</td>
<td>3.5</td>
<td>4.1</td>
<td>4.0</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>1.3</td>
<td>1.4</td>
<td>2.2</td>
<td>1.9</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>US</td>
<td>2.3</td>
<td>2.0</td>
<td>3.0</td>
<td>2.0</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Euro area</td>
<td>-0.4</td>
<td>-0.2</td>
<td>1.0</td>
<td>2.3</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>UK</td>
<td>-0.2</td>
<td>1.0</td>
<td>1.9</td>
<td>2.7</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.0</td>
<td>1.2</td>
<td>0.7</td>
<td>0.0</td>
<td>-0.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Emerging markets and developing economies</td>
<td>5.1</td>
<td>5.5</td>
<td>5.9</td>
<td>6.1</td>
<td>5.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.0</td>
<td>3.5</td>
<td>4.0</td>
<td>5.2</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Russia</td>
<td>3.6</td>
<td>3.7</td>
<td>3.8</td>
<td>5.1</td>
<td>6.6</td>
<td>6.5</td>
</tr>
<tr>
<td>India</td>
<td>4.5</td>
<td>5.9</td>
<td>6.4</td>
<td>10.3</td>
<td>9.7</td>
<td>8.3</td>
</tr>
<tr>
<td>China</td>
<td>7.8</td>
<td>8.2</td>
<td>8.5</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.8</td>
<td>5.8</td>
<td>5.7</td>
<td>9.1</td>
<td>7.1</td>
<td>6.1</td>
</tr>
<tr>
<td>South Africa&lt;sup&gt;2&lt;/sup&gt;</td>
<td>2.5</td>
<td>2.7</td>
<td>3.5</td>
<td>5.7</td>
<td>5.6</td>
<td>5.5</td>
</tr>
</tbody>
</table>

<sup>1</sup> IMF, World Economic Outlook, October 2012 and Update, January 2013
<sup>2</sup> National Treasury forecasts
CHAPTER 2: ECONOMIC OUTLOOK

Trends in major economies and regions

United States – Growth in the world’s largest economy is projected at 2 per cent in 2013, down from an estimated 2.3 per cent in 2012. Capital spending has improved, with signs of an incipient revival in the housing sector. Unemployment remains high. The Federal Reserve’s “quantitative easing” programme is expected to remain in place until there is a substantive improvement in the labour market. High levels of global liquidity have boosted financial flows to corporate and government bond markets, but banks remain cautious about increasing private credit extension, restraining the recovery in demand.

Europe – The euro monetary area entered a deepening recession during the second half of 2012 and is expected to contract by 0.2 per cent in 2013. Bank deleveraging has had a severe effect on consumption and investment, particularly in Greece, Italy, Portugal and Spain, where high joblessness has dented confidence. The German economy, which until recently enjoyed a robust recovery and accounts for more than a quarter of eurozone GDP, contracted by 0.6 per cent in the fourth quarter of 2012. The fragility of bank balance sheets continues to pose a serious risk to financial stability, resulting in a number of bank recapitalisations.

Emerging markets – Emerging market economies continue to grow more rapidly than developed economies. However, emerging market output growth weakened in 2012 as external demand softened. Fluctuations in investor risk appetite contributed to continued volatility in currencies and commodity prices.

China’s economy is expected to grow by 8.2 per cent in 2013 as a result of lower interest rates, reduced reserve requirements for banks and public infrastructure spending. In the period ahead, a rebalancing of growth away from net exports and investment towards household consumption could affect international production, trade and commodity price trends. The IMF forecasts average growth of 8.5 per cent over the next five years, compared with 10.5 per cent over the previous two decades. The Chinese growth model, which has been reliant on a plentiful supply of low-wage workers, is beginning to confront the effects of rising real wages and large-scale demographic changes.

Real GDP growth in India is projected to rise to 5.9 per cent in 2013 from 4.5 per cent in 2012. Double-digit consumer inflation will restrain near-term growth momentum. The Indian economy is opening up to global investors, which should bolster productivity and investment over the medium term.

After nearly stalling in 2012 following weak investment spending, real GDP growth in Brazil is projected to increase to 3.5 per cent in 2013, supported by earlier decisions to ease monetary policy and provide fiscal stimulus.

Sub-Saharan Africa – Relatively high commodity prices continue to support growth, particularly in resource-rich countries. The IMF expects regional growth to rise from 4.8 per cent in 2012 to 5.8 per cent in 2013. Greater macroeconomic and political stability are attracting increased capital investment. The United Nations World Investment Report 2012 showed that foreign direct investment (FDI) inflows into sub-Saharan Africa
Africa rose from US$29.5 billion in 2010 to US$36.9 billion in 2011, just below the 2008 peak. While most foreign investment is channelled towards commodity economies, the continent’s youthful population and rising per capita incomes and expenditure are drawing greater inflows into consumer-related activities.

Several risks to the global economic outlook should be noted:

- The uncertain trajectory of fiscal policy in major economies. The absence of credible medium-term consolidation strategies, particularly in the US and Japan, couldjeopardise sustainable growth.
- Continued crisis in Europe. Sovereign debt levels, banking-sector strains and weak growth may continue to destabilise the euro monetary area.
- High global unemployment and inequality. Joblessness and inequality undermine confidence and social cohesion, and could prompt political strife.
- Oil price volatility. Tensions in the Middle East are likely to continue destabilising the market, leading to higher oil prices.

**Commodity prices**

Commodity prices slipped during 2012, prompted largely by a slowdown in Chinese industrial production. Coal prices declined by 20 per cent on average and iron ore prices were 23.4 per cent lower than in 2011. Chinese re-stocking helped lift iron ore prices by almost 30 per cent in the fourth quarter of 2012. The platinum price increased by 9.7 per cent in 2012, reflecting supply concerns. High global liquidity continued to support the gold price, which increased by 6.4 per cent during 2012.

**Figure 2.1 Commodity price trends, 2006 – 2013**

![Commodity price trends, 2006 – 2013](source: Bloomberg and Index Mundi)
The world economic crisis half a decade on
The collapse of Lehman Brothers in September 2008 precipitated a synchronised recession in advanced economies, a sharp decline in global trade and manufacturing, and a sovereign debt crisis in highly indebted eurozone countries.

Unresolved global challenges
Five years on, a lasting recovery has eluded the world economy, which faces a range of challenges:

- **High levels of public and private debt.** Balance sheet repair is imperative for households, banks and governments, but synchronised deleveraging is acting as a brake on growth.
- **Austerity versus growth.** Large fiscal deficits and high debt levels have made many economies reliant on continuing monetary stimulus, and policy makers are struggling to find the right balance between fiscal consolidation and growth. Austerity in some countries has proved costly and unproductive.
- **High levels of long-term and youth unemployment.** The crisis brought on a global dilemma of rising joblessness, higher poverty and worsening income inequality.
- **Spill-over effects from high global liquidity and exchange rate policies.** Low interest rates in advanced economies, the search for yield and currency interventions by major economies have led to volatile capital flows, commodity price swings and large-scale currency adjustments in emerging markets.
- **Limited progress in rebalancing.** Countries that had large current account deficits before the crisis have done little to raise domestic savings, while surplus countries have done little to boost domestic demand.
- **Global policy coordination.** In recent years global policy coordination has weakened, moving away from the orchestrated fiscal and monetary stimulus in 2008 that halted the free-fall in financial markets and helped to stave off a global economic depression. Attempts by the Group of 20 to achieve strong, sustained and balanced growth have been frustrated. Rising protectionism and exchange rate intervention are slowing adjustment efforts. Investor confidence remains fragile in the face of global risk.
- **Structural constraints.** The inability or reluctance of governments to address structural constraints is delaying the adjustments needed to improve productivity, competitiveness and growth.

Effect on South Africa
The global crisis has had consequences for South African trade, capital flows and currency:

- **Weak external demand among South Africa’s traditional trading partners – Europe, the US and Japan – has affected exports, particularly for manufactured goods.** Growth in exports to China has partially offset reduced trade with advanced economies, but has made South Africa more vulnerable to shifts in Chinese demand and related commodity price adjustments. Africa has become a more important export destination.
- **High levels of global liquidity and fluctuating risk appetite have increased exchange rate volatility, with the rand oscillating between periods of prolonged strength and weakness.** South Africa relies on foreign inflows to sustain current investment levels and fund the current account and budget deficits.

### Domestic outlook

The South African economy is expected to grow by 2.7 per cent in 2013, 3.5 per cent in 2014 and 3.8 per cent in 2015. The gradual improvement will be supported by robust investment spending and rising exports as global trade gathers pace. Additional electricity supply from new power plants coming online, water supply and rail capacity upgrades, strong regional growth, stable inflation and relatively low interest rates will also support higher levels of growth.

The outlook for household consumption, which accounts for about 60 per cent of GDP, is modest, with growth expected to average 3.6 per cent over the medium term. Sluggish job creation is likely to inhibit real disposable income growth, while elevated household debt levels could restrain consumer spending.

Continued implementation of the national infrastructure programme is expected to result in robust public-sector fixed capital formation, which is forecast to grow at an average of 9 per cent over the next three years. A moderate acceleration in private-sector investment is also expected as...
rising capacity utilisation necessitates additional investment, housing construction recovers after five years of contraction and inventory re-stocking takes place.

Export performance is projected to pick up as the mining sector rebounds and external demand strengthens. The current account deficit will, however, remain under some pressure, averaging 6.2 per cent over the next three years, as the terms of trade show little improvement and import growth responds to rising domestic demand, particularly public-sector capital investment.

Headline consumer inflation is projected to remain near the upper range of the 3-6 per cent inflation target band over the medium term. A relatively weak exchange rate and adjustments to the consumer price index (CPI) to account for changes in household consumption, particularly the increasing weight of fuel and electricity, will raise headline inflation relative to earlier forecasts.

The pace of economic recovery will be determined largely by the rate at which private investment and export growth strengthen. Policy clarity, implementation of the NDP and the effective rollout of economic infrastructure are needed to boost confidence and competitiveness over the medium term.

**Boosting South Africa’s competitiveness in a changing world economy**

The Organisation for Economic Cooperation and Development estimates that, adjusting for the relative purchasing power of different currencies, China and India will represent about 40 per cent of global GDP by 2030. These changes underline the need to improve the South African economy’s dynamism and competitiveness to take advantage of shifting patterns in global economic activity. The NDP sets out measures to lower the costs of doing business and improve the ability of exporters to compete in world markets. Government is also working to enhance South Africa’s trading relationships with major emerging economies, including Brazil, Russia, India and China.

Annexure W3, available on the National Treasury website, describes proposed reforms aimed at securing South Africa’s position as the financial Gateway to Africa. These include a new tax-efficient subsidiary free of foreign-currency constraints, an additional 5 per cent Africa allowance for banks, and reclassification of certain debt instruments and exchange-traded funds as domestic investments.

**Table 2.2 Macroeconomic performance and projections, 2009 – 2015**

<table>
<thead>
<tr>
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<th></th>
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<tr>
<td>Final household consumption</td>
<td>-1.6</td>
<td>4.4</td>
<td>4.8</td>
<td>3.4</td>
<td>3.1</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Final government consumption</td>
<td>4.8</td>
<td>5.0</td>
<td>4.6</td>
<td>3.9</td>
<td>3.3</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>-4.3</td>
<td>-2.0</td>
<td>4.5</td>
<td>6.4</td>
<td>5.7</td>
<td>5.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Gross domestic expenditure</td>
<td>-1.6</td>
<td>4.4</td>
<td>4.6</td>
<td>4.1</td>
<td>3.4</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Exports</td>
<td>-19.5</td>
<td>4.5</td>
<td>5.9</td>
<td>1.1</td>
<td>3.9</td>
<td>6.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Imports</td>
<td>-17.4</td>
<td>9.6</td>
<td>9.7</td>
<td>7.2</td>
<td>5.9</td>
<td>7.2</td>
<td>7.3</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>-1.5</td>
<td>3.1</td>
<td>3.5</td>
<td>2.5</td>
<td>2.7</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>GDP inflation</td>
<td>8.3</td>
<td>7.2</td>
<td>6.0</td>
<td>5.2</td>
<td>6.6</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>GDP at current prices (R billion)</td>
<td>2 406</td>
<td>2 659</td>
<td>2 918</td>
<td>3 145</td>
<td>3 445</td>
<td>3 790</td>
<td>4 170</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>7.1</td>
<td>4.3</td>
<td>5.0</td>
<td>5.7</td>
<td>5.6</td>
<td>5.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-4.0</td>
<td>-2.8</td>
<td>-3.4</td>
<td>-6.1</td>
<td>-6.2</td>
<td>-6.3</td>
<td>-6.0</td>
</tr>
</tbody>
</table>
Risks to the domestic outlook

Risks to the growth outlook include weaknesses in the mining sector, a worse-than-expected deterioration in the current account deficit, falling consumer and producer confidence, and infrastructure constraints. Prolonged strike action and rising real wages that outpace productivity gains would slow job creation.

The ability of businesses to adjust to rising user charges required to fund new infrastructure, and adapt to shifting patterns of global trade, will also affect the strength of private-sector economic activity.

Growth and the National Development Plan

Opening the path to stronger economic growth requires that identified barriers to growth be addressed. The NDP emphasises the importance of:

- Rebuilding confidence and encouraging private investment through establishing policy and regulatory certainty, maintaining fiscal credibility and demonstrating effective public service delivery.
- Addressing the country’s distorted spatial legacy through urban planning and public transport policies that reduce the cost and time of travel to work, and improve the quality of life by lowering living costs.
- Lowering the costs of doing business to improve competitiveness, including actions to reduce regulatory burdens, and promote entrepreneurship and small business.
- Strong regional growth, with opportunities for firms with expertise in mining, construction, retail and finance, and manufactured exports.
- Removing bottlenecks in economic and social infrastructure.
- Implementing labour activation policies that get young people into employment and onto career paths.

Trends in the real economy

Growth in gross value added slowed to 2.4 per cent in the first nine months of 2012, compared with an average of 3.2 per cent in the two previous years. A contraction in the mining sector, sluggish growth in manufacturing and weakness in services as a result of a deceleration in consumption spending explain the slowdown. There was a marginal improvement in construction sector activity, but sustained growth will depend on a recovery in the local housing market and continued implementation of infrastructure projects.

Weak output growth in many sectors

Mining value added declined by 4.3 per cent in the first three quarters of 2012 in response to strike-related production stoppages. Weaker global growth slowed Chinese demand and softened commodity prices. Between July and October, mining output fell by 16.7 per cent. The National Treasury estimates that the total value of mining production lost due to strikes and stoppages in 2012 amounted to R15.3 billion.
Mining output rebounded somewhat in the last two months of the year, but was 3.1 per cent lower in 2012 compared with 2011. There were notable production losses in copper (-21.8 per cent), gold (-14.5 per cent) and platinum group metals (-12 per cent). In contrast, iron ore production increased by 15.7 per cent.

Realising the potential of South Africa’s mining sector

Mining remains a cornerstone of the South African economy, with strong ties to industry. Mining is a large contributor to corporate tax and export revenues, and a substantial direct and indirect source of economic activity and jobs.

The sector’s potential to contribute more to the economy is contingent on higher rates of investment. The value of South Africa’s planned mining investments over the next two decades is low compared with other commodity economies. Investment requires a supportive policy climate. The NDP argues for certainty of property rights, a stable regulatory framework particularly for licenses, securing reliable electricity and rail transport, deepening links with other sectors, and focusing research and development to improve extraction methods that prolong mine life, boost energy efficiency, and find new uses for minerals. Greater institutional capacity to manage the regulatory framework would also help realise the sector’s potential.

Mining investment plans, 2012 – 2030

Mining in numbers, 2011

<table>
<thead>
<tr>
<th>Mining in numbers, 2011</th>
<th>R million unless otherwise stated</th>
<th>Value</th>
<th>Share of total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP - direct</td>
<td>99 415</td>
<td>5.9</td>
<td></td>
</tr>
<tr>
<td>(Including indirect effects)</td>
<td>467 952</td>
<td>18.7</td>
<td></td>
</tr>
<tr>
<td>Employment ('000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct (formal non-agricultural) ('000)</td>
<td>519</td>
<td>6.1</td>
<td></td>
</tr>
<tr>
<td>Indirect (total) ('000)</td>
<td>840</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>45 097</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>FDI (stocks)</td>
<td>682 174</td>
<td>38.3</td>
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</tr>
<tr>
<td>Exports</td>
<td>444 926</td>
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<tr>
<td>Corporate income tax</td>
<td>18 553</td>
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<tr>
<td>Value-added tax</td>
<td>7 040</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td>5 612</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

1. 2010
2. Nominal figures, including base metals and related articles
Source: Reserve Bank, South African Revenue Service, Quantec, Statistics South Africa and Industrial Development Corporation

1. First three quarters of 2012
Source: Reserve Bank
Delays in the resumption of full operations, shaft closures and fraught labour relations could constrain output for a prolonged period.

Structural impediments and a changing global context are affecting the outlook for the sector. China and other emerging markets are now the principal drivers of demand and prices for a range of industrial, energy and agricultural commodities. Weak automobile markets in Europe and Japan and increased recycling have contributed to lower demand for platinum. Domestic constraints include ever-deeper shafts and declining ore quality in gold mining, rising electricity prices, water supply and licence issues, and bottlenecks in logistics infrastructure.

Overall manufacturing output strengthened during the fourth quarter of 2012, but increased by just 2.1 per cent during the year, despite relatively strong growth in petrochemicals, wood and paper, and food and beverages. Manufacturing production has fallen in industries closely linked to mining. Metal products – the largest component in manufacturing output – and the electrical machinery sector were the worst performers in 2012. Output in many sectors remains significantly below pre-recession levels.

Subdued output in industry and mining, as well as Eskom’s maintenance operations and its power buy-back programme, contributed to a 1.8 per cent decline in electricity distribution in 2012. The margin between electricity supply and demand remains narrow, limiting the economy’s growth potential in the near term, but the supply constraint will begin to lift in 2014.

Growth momentum in the agriculture sector was strong over the first nine months of 2012. International supply disruptions resulted in higher prices for maize, wheat and soya beans in the second half of 2012. This has supported farming revenues but has also raised food prices. Following prolonged strikes in the Cape Winelands, an agreement to raise the
minimum wage by 50 per cent to R105 per day will boost farmworker incomes but may result in some job losses.

Lower levels of local economic activity, relatively weak global demand and the three-week truck drivers’ strike in September 2012 constrained growth in the transport and communications sector.

The depth of labour frustrations in the mining and agricultural sectors is partly rooted in unsustainable economic and social conditions, sharpened by the rising cost of living. Concerted and collaborative attempts by employers and labour to resolve these concerns are critical for these sectors to prosper in the long term. More broadly, the events of 2012 have revealed weaknesses in South Africa’s collective bargaining system. Government, business and labour have agreed to work together to strengthen the system of labour relations.

**Manufacturing in the 21st century**

The manufacturing sector is critically important for the country’s growth and development. Manufacturing is a driver of innovation, productivity and competitiveness.

South Africa’s manufacturing sector has become more capital intensive over the past decade. This is consistent with global trends and reflects technological innovation (often labour- and cost-saving), trade liberalisation (economies of scale) and shifting patterns of global demand. Traditional labour-intensive sectors such as clothing, textiles and furniture account for only 7 per cent of world manufacturing value added, and global trade in these goods has declined. High- and medium-skilled labour is playing a greater role in global manufactured trade, gradually displacing labour-intensive manufacturing.

Historically, South Africa’s industrial policies and low electricity prices have favoured capital-intensive industries, such as steel and petrochemicals. In recent years, shortages of skilled workers, sluggish external demand and rising domestic costs have intensified competitive pressures in industry, and reduced employment.

**Skills composition of global and South African manufacturing exports**

Government can support manufacturing through various interventions. The NDP argues for the sequential elimination of binding constraints to industrial expansion, including the supply of skilled labour, reliability of electricity supply, low productivity levels and high logistics costs. The manufacturing competitiveness enhancement programme, introduced in the 2012 Budget, provides targeted support to firms working toward greater efficiency and competitiveness.
**Toward structural change in the real economy**

The NDP recognises that the key to more rapid, sustained growth lies in addressing structural constraints. South Africa is a relatively small market distant from most of its major trading partners. The country faces complex challenges, including high unemployment, shortcomings in public education, a weak skills base, a resource-intensive economy bias, high levels of inequality and spatial distribution patterns that raise the costs of living and doing business. Government’s existing policies and actions that will be put in place will begin to address these issues.

In overcoming the historical reliance on the resource sector, industrial policy will need to continue its transition away from an approach that favoured capital- and energy-intensive goods, often with limited domestic linkages, towards an increasingly diversified industrial base. This transition has begun with the strategic intent of the New Growth Path, the removal of implicit energy subsidies, and the re-evaluation of freight transport tariffs and cargo duties.

Making the shift towards more dynamic, sustainable sectors will take time. The private sector’s response to changing incentives and patterns of investment decisions occur over the medium to long term. Fixed equipment cannot be easily replaced, new value chains need to be developed, and skills and experience take years to accumulate.

### How can South Africa meet the challenge of supporting small business?

Small, medium and micro enterprises (SMMEs) and entrepreneurship are engines of growth in many developing nations. South Africa has relatively low levels of entrepreneurship (see table) and SMMEs contribute 55 per cent of total employment, compared with 90 per cent or more in China, India and Indonesia.

The 2013 *SBP SME Growth Index* surveyed 500 established small and medium-sized businesses in the manufacturing and business services that employ 10 or more workers. Over 70 per cent of firms reported that 2012 had been a difficult year, with a small average increase in turnover (9 per cent) and declining employment. Over 25 per cent of firms identified rising input costs (electricity prices, municipal rates and services) as constraints. Other challenges include poor work ethics, an increasing regulatory burden, inadequate sources of finance and skills shortages. Concentrated product markets also inhibit SMME growth.

Moreover, the survey highlighted that the country’s entrepreneurial community is aging. In manufacturing, 43 per cent of SMME owners are older than 50 years and have no succession plan.

A 2012 study on tax compliance demonstrates that small businesses still carry significant time and cost burdens associated with complying with tax rules. Policy initiatives to support SMMEs – such as credit guarantee schemes, entrepreneurship training, business incubation and technology assistance – have not yet had the desired effect. The NDP identifies several ways to support SMMEs and new firm creation, including public and private procurement to stimulate demand, easing access to finance, regulatory simplification – in areas such as business registration, tax and labour regulation – and reforms to the skills training landscape.

---

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Adult population engaged in entrepreneurship</th>
<th>Adult population with entrepreneurial intent</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>9.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>15.0</td>
<td>28.0</td>
</tr>
<tr>
<td>China</td>
<td>24.0</td>
<td>43.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Chile</td>
<td>24.0</td>
<td>46.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>21.0</td>
<td>42.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>19.0</td>
<td>25.0</td>
</tr>
</tbody>
</table>

Source: *Global Entrepreneurship Monitor 2011*

---

Small firms and new ventures are expected to be a source of dynamism, innovation, competition, growth and job creation. This highlights the importance of cultivating an economic climate that promotes entrepreneurial talent and facilitates small firm expansion, in part by reducing bureaucratic encumbrances and associated costs found in the present regulatory environment.

The NDP and the current Industrial Policy Action Plan highlight the importance of investing in tradable goods and services as an engine of growth – and domestically orientated and service-sector firms as a primary source of jobs – and strengthening the links between the two. Such a large-scale transition will inevitably require difficult adjustments. Government has an important role to play in smoothing the transition by protecting individuals through a combination of income support, labour-matching services and access to retraining. Existing tax and investment incentives provide support to firms undergoing structural change.

## Labour market

High unemployment is the most pressing challenge facing the country. There are 4.5 million jobless South Africans and another 2.3 million people categorised as “discouraged” who are no longer actively seeking work, raising the broad unemployment rate to 33.2 per cent. Total employment is 450 000 below pre-crisis levels.

Slow economic growth in 2012 hindered formal non-agricultural employment growth. Between September 2011 and September 2012, about 82 000 jobs were created, bolstered by rapid growth in national and provincial government payrolls in the middle of the year.

### Figure 2.3 Annual growth in non-agricultural gross value added and formal employment, 2007 – 2012

![Graph showing annual growth in non-agricultural gross value added and formal employment, 2007 – 2012](image)

Source: Quarterly Employment Survey and Reserve Bank

Nominal wage settlements averaged 7.6 per cent in 2012 compared with 7.7 per cent in 2011. After moderating to 5.9 per cent in 2011, growth in nominal unit labour costs has started to rise. Productivity growth averaged just 1.2 per cent over the last two years.
Moderate employment growth is expected over the next three years. With fiscal pressures providing little room for an expansion of public-sector employment, job creation prospects will largely depend on private-sector hiring.

**Youth employment**

Youth joblessness remains exceptionally high, with more than 40 per cent of those who are economically active and under the age of 30 unemployed. Low levels of demand, lack of experience, divergence between job search and firm hiring strategies, and an absence of appropriate skills and networks contribute to lower employment prospects for young workers. To date, interventions to encourage the private sector to hire younger workers have proven inadequate.

The NDP suggests a range of labour activation policies to help young people enter into formal employment.

**Employment tax incentives**

As part of a package of measures aimed at boosting opportunities for young work seekers, government recognises the need to share the costs of expanding job opportunities with the private sector. Government’s existing approach to supporting employment growth focuses on training, skills development, labour market activation and short-term public employment. Programmes in support of these objectives include sector education and training authorities, further education and training colleges, small enterprise support, the Industrial Policy Action Plan, the expanded public works programme and the community work programme.

To complement existing programmes, a youth employment tax incentive aimed at encouraging firms to employ young work seekers will be tabled for consideration by Parliament. The introduction of this tax incentive, which takes into account the concerns of organised labour, will help young people enter the labour market, gain valuable experience and access career opportunities. Protection provided by existing labour legislation, combined with oversight by the South African Revenue Service and the Department of Labour, will avoid displacement. A similar tax incentive will be made available to eligible workers of all ages within special economic zones.
Dynamics in the youth labour market

Since 2009, the National Treasury has worked with the African Micro-Economic Research Unit at the University of Witwatersrand to study the youth labour market. The study tracked 4 000 non-economically active and unemployed young people aged 20-24 years, and more than 600 firms, over a period of three years. Part of this research included testing the impact of a R5 000 hiring voucher on employment outcomes. Half the sample received a hiring voucher that could be used to reduce the initial cost of labour for their prospective employer, over a minimum of six months, while leaving their wage unaffected.

The main findings of the research included the following:

• There is a large asymmetry between how young people look for work, enquiring at workplaces, and how firms hire people, through formal channels or networks.

• The structure of the household and extended social connections are important for success in the labour market. Networks are the main channel through which information about jobs is transmitted.

• Young people who were allocated a hiring voucher were up to 25 per cent more likely to be employed than those who were not. This effect persisted two years after the hiring voucher was allocated.

• The majority of firms stated they would not substitute older workers for younger ones if there was a youth employment incentive, in part because older workers are more reliable and experienced.

Domestic expenditure

Growth in gross domestic expenditure moderated to an estimated 4.1 per cent in 2012, compared with 4.6 per cent in 2011, with a rebalancing in composition away from the private sector towards the public sector. Private domestic expenditure growth is expected to slow to a modest 3.1 per cent in 2013. Accelerated public investment has cushioned the impact of slowing private domestic demand and is expected to remain robust over the medium term.

Consumption trends

After rising by 4.8 per cent in 2011, household consumption growth slowed to 3.4 per cent in the first three quarters of 2012, with a sharp loss of momentum in the third quarter. Annual growth in retail sales slowed from 5.9 per cent in 2011 to 4.4 per cent in 2012. The slowdown was marked by decelerating spending on services as consumer confidence fell and real disposable income growth moderated.

Table 2.5 Components of domestic demand, 2010 – 2012

<table>
<thead>
<tr>
<th>Components of domestic demand</th>
<th>Growth rates (per cent)</th>
<th>Contributions to demand growth (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Household consumption</td>
<td>4.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Durables</td>
<td>18.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Semi-durables</td>
<td>3.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Non-durables</td>
<td>1.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Services</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Government consumption</td>
<td>5.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>-2.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Private sector</td>
<td>-0.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Public corporations</td>
<td>-1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>General government</td>
<td>-9.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Domestic demand</td>
<td>3.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

1. First three quarters of 2012

Source: Reserve Bank
Consumer confidence waned in response to poor global economic conditions, local industrial action, rand weakness and downgrades of South Africa’s credit ratings. Slower real disposable income gains were consistent with muted formal-sector employment gains and lower real wage growth in 2012. Growth in real disposable income decelerated to 3.4 per cent in the first three quarters of 2012, after averaging 5.2 per cent in 2010 and 2011. Household indebtedness remains elevated at 76 per cent of gross disposable income, although debt-service costs declined from 6.9 per cent to 6.5 per cent of gross disposable income in the third quarter of 2012 following an interest rate cut in July.

**Gross fixed capital formation**

Real gross fixed capital formation – investment in fixed capital by general government, public corporations and private enterprises before depreciation – accelerated to an estimated 6.4 per cent in 2012 from 4.5 per cent in 2011. Strong public-sector fixed capital formation offset a marked deceleration in private investment.

Public-sector capital spending grew by 11 per cent during the first nine months of 2012 as a result of major Eskom and Transnet projects, provincial investment in roads and hospitals, and local government road and housing projects.

Private-sector investment growth slowed to 4.3 per cent in the first three quarters of 2012 compared with 4.6 per cent in 2011. Investment by the mining and manufacturing sectors, which accounted for about 60 per cent of overall investment growth in 2011, slowed sharply in 2012. Inventory levels are relatively low at 12.7 per cent of GDP, compared with 15.9 per cent between 2000 and 2008. Manufacturing capacity utilisation rose to 83.8 per cent in December 2012, marginally below pre-recession levels, suggesting that the need to invest and add capacity may support an increase in private investment.

**Figure 2.4 Contributions to real investment growth, 2005 – 2012**

Significant strike activity, ratings downgrades and perceived policy uncertainty have contributed to reduced confidence and deterred or postponed private investment decisions. In addition, the residential
housing market continues to struggle and many commercial buildings stand vacant. The BER/RMB business confidence index recorded a significant decline in investment intentions in the fourth quarter in response to weak demand and strike-related concerns.

Domestic savings rates remain low, resulting in a significant gap between investment and savings. High levels of gross corporate savings contrast with low levels of household savings, and government dissaving.

### Monetary and financial sector developments

#### Credit

Corporate credit increased by 10.3 per cent in 2012, up from 6.1 per cent in 2011, despite uncertainty in the economic outlook and high corporate savings.

Household credit extension also picked up in 2012, rising to 9.9 per cent in 2012 from 6.3 per cent in 2011. Low interest rates, benign inflation and a relaxation in lending criteria supported improved credit appetite.

#### Table 2.6 Composition of household credit extension, 2010 – 2012

<table>
<thead>
<tr>
<th>Shares 2012</th>
<th>Annual growth (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Household credit</td>
<td>100.0</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>Mortgage advances</td>
<td>61.3</td>
</tr>
<tr>
<td>Installment sale and leasing finance</td>
<td>15.9</td>
</tr>
<tr>
<td>Other loans and advances</td>
<td>22.8</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>Overdrafts</td>
<td>2.3</td>
</tr>
<tr>
<td>General loans and advances (mostly unsecured credit)</td>
<td>14.5</td>
</tr>
<tr>
<td>Credit cards</td>
<td>6.0</td>
</tr>
</tbody>
</table>

1. End of year

Source: Reserve Bank

The distribution of household credit continues to shift from mortgage advances to unsecured credit, which accounted for nearly 60 per cent of household credit extension in 2012. This trend began in 2010, reflecting the banking sector’s shift to more profitable lending due to low interest...
rates, a stagnant property market and Basel III regulations requiring closer
matching of assets and liabilities. The National Treasury, the Reserve
Bank and regulators will continue to carefully monitor the level of
unsecured credit.

The ratio of impaired advances (that is, loans that are not likely to be fully
repaid) to total loans and advances has fallen to 4.1 per cent in November
2012 from a high of 6 per cent in November 2009. Surveys of the financial
sector indicate optimism among retail bankers, but expectations of tighter
credit conditions to control impaired loans.

**Inflation**

Consumer inflation increased to 5.4 per cent in January 2013 from a low of
4.9 per cent in July 2012. Food and fuel prices have pushed up headline
inflation as a result of supply shocks in agriculture and the continuing high
price of oil, despite weak global growth. Currency weakness during the
second half of 2012 compounded these effects and is expected to place
upward pressure on inflation in 2013. Moderate consumer demand is likely
to contain rising core inflationary pressures over the near term.

The 2010/11 Income and Expenditure survey conducted by Statistics
South Africa highlighted shifts in household spending patterns over the
last five years and informed the weights in the CPI basket. These include a
rise in the relative importance of electricity, petrol, rentals and medical aid
contributions. The changes are expected to raise headline CPI inflation for
2013 by 0.3 percentage points relative to earlier forecasts.

Inflation for more than 70 per cent of the administered price basket
exceeds 6 per cent, with double-digit increases in municipal charges on
water supply, refuse and sewerage collection. Higher charges to fund
municipal infrastructure needs for water and electricity suggest there will
be limited relief for middle-income earners and businesses. There is a need
for better coordination of administered prices to help manage inflation
pressures.

## Balance of payments

The balance of payments measures all trade and financial transactions
between South Africa and the rest of the world.

A large trade deficit and higher net current transfers abroad due to
payments to the Southern African Customs Union (SACU) widened the
current account deficit to an estimated 6.1 per cent of GDP in 2012 from
3.4 per cent in 2011. The elevated deficit is a source of external
vulnerability. Policies that aim to improve manufacturing competitiveness,
ensure the long-term viability of mining and reorient South Africa’s
exports towards fast-growing African and emerging markets should bolster
the economy’s export potential over time.

The financial account continues to be in surplus, with strong non-resident
demand for government bonds and other investment inflows. South Africa
will need to attract a cumulative inflow of global savings estimated at
R703 billion over the next three years to finance the current account
deficit. Sustained inflows require improvements to both investor
confidence and the investment climate.
Current account

The trade balance substantially weakened during the first three quarters of 2012, recording a deficit of 2.1 per cent of GDP compared with a surplus of 0.6 per cent in 2011. Low export volumes, high imports and less favourable terms of trade lay behind the reversal of the trade balance. The terms of trade, including gold, declined by 1.9 per cent over the period.

Table 2.7 Current account balance, 2007 – 2012

<table>
<thead>
<tr>
<th>Percentage of GDP</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current account</td>
<td>-7.0</td>
<td>-7.2</td>
<td>-4.0</td>
<td>-2.8</td>
<td>-3.4</td>
<td>-5.9</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-1.8</td>
<td>-1.6</td>
<td>0.1</td>
<td>1.0</td>
<td>0.6</td>
<td>-2.1</td>
</tr>
<tr>
<td>Net services, income and transfer payments</td>
<td>-5.2</td>
<td>-5.6</td>
<td>-4.1</td>
<td>-3.8</td>
<td>-4.0</td>
<td>-3.8</td>
</tr>
<tr>
<td>Net service payments</td>
<td>-0.9</td>
<td>-1.5</td>
<td>-1.0</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Net income payments</td>
<td>-3.4</td>
<td>-3.3</td>
<td>-2.2</td>
<td>-2.0</td>
<td>-2.3</td>
<td>-2.1</td>
</tr>
<tr>
<td>Net dividend payments</td>
<td>-3.1</td>
<td>-2.6</td>
<td>-1.6</td>
<td>-1.5</td>
<td>-1.9</td>
<td>-1.6</td>
</tr>
<tr>
<td>Net current transfer payments (mainly SACU)</td>
<td>-0.8</td>
<td>-0.8</td>
<td>-0.9</td>
<td>-0.6</td>
<td>-0.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>Current account excluding net current transfers</td>
<td>-6.1</td>
<td>-6.3</td>
<td>-3.1</td>
<td>-2.2</td>
<td>-2.9</td>
<td>-4.9</td>
</tr>
</tbody>
</table>

1. First three quarters of 2012, seasonally adjusted and annualised

Source: Reserve Bank

Sluggish export performance reflects a combination of slowing global demand, declining competitiveness due to a changing cost structure, falling prices for some major commodity exports, rand volatility and the impact of extensive disruption in the mining sector. Imports grew at a robust pace, driven by oil, investment goods and vehicles. The weakening rand exchange rate pushed up the prices of imported goods.

As a result of weak growth in Japan and Germany, and softer growth in China, exports to these countries fell by 20 per cent, 12 per cent and 4.9 per cent respectively in 2012. Platinum exports were hardest hit, falling by 18.5 per cent by value, while iron and steel exports fell by 7.6 per cent. Other countries in the Southern African Development Community continue to absorb a growing share of South Africa’s manufactured exports, up from 17.9 per cent in 2009 to 22.4 per cent in 2012.

Figure 2.5 Components of the trade balance, 2005 – 2012
Financial account

The financial account of the balance of payments was supported by net inflows of portfolio and other investment in the first nine months of 2012.

Table 2.8  Financial account of the balance of payments, 2007 – 2012

<table>
<thead>
<tr>
<th>Percentage of GDP</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial account balance²</td>
<td>9.3</td>
<td>8.3</td>
<td>4.7</td>
<td>4.0</td>
<td>4.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Net portfolio investment</td>
<td>3.6</td>
<td>-6.0</td>
<td>3.9</td>
<td>2.8</td>
<td>-0.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Net foreign direct investment</td>
<td>1.0</td>
<td>4.4</td>
<td>1.5</td>
<td>0.4</td>
<td>1.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Net other investment</td>
<td>3.0</td>
<td>5.8</td>
<td>-0.7</td>
<td>-0.5</td>
<td>1.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Unrecorded transactions</td>
<td>1.7</td>
<td>4.1</td>
<td>0.0</td>
<td>1.4</td>
<td>2.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Change in net reserves due to balance of payment transactions</td>
<td>2.4</td>
<td>1.2</td>
<td>0.7</td>
<td>1.2</td>
<td>1.1</td>
<td>0.4</td>
</tr>
</tbody>
</table>

¹. First three quarters of 2012

². Includes unrecorded transactions

Source: Reserve Bank

Non-residents were strong net purchasers of local bonds worth R92.4 billion in 2012, compared with R46.7 billion in 2011, which helped to finance South Africa’s current account and budget deficits. Substantial inflows, boosted by South Africa’s inclusion in the Citigroup World Government Bond Index, occurred despite periods of global risk aversion, negative investor sentiment towards South Africa, the wider current account deficit and ratings downgrades.

Foreign investors reduced their holdings of local equities by R3.6 billion in 2012. Net foreign direct investment totalled R19.9 billion over the first nine months of 2012, reflecting net inward investment of R38.9 billion and net outward investment of R19 billion. Strong net inflows of other investment totalled R52.6 billion in the first three quarters of 2012, marginally lower than during the same period in 2011. Total gross foreign exchange reserves increased from US$48.9 billion at the end of 2011 to US$51.2 billion at the end of January 2013, primarily due to valuation adjustments on gold reserves and cash holdings.

Factors influencing the current account outlook

The current account deficit is forecast to be higher than expected at the time of the 2012 Medium Term Budget Policy Statement. Several factors will affect the outcome:

- Continued supply-side disruptions in major export industries such as mining, delays in additional electricity supply coming online, or a slower-than-expected global recovery could result in a larger deficit.
- Faster growth in African and other emerging market trading partners can stimulate exports, supporting higher commodity prices and an improvement in the terms of trade. Rand weakness can also boost export growth, provided that the real depreciation is sustained and improves competitiveness.
- Structural improvements in the current account require a significant increase in the domestic savings rate and decreased reliance on foreign savings.

Exchange rate

Exchange rate volatility remained elevated in 2012 as global risk appetite responded to continued uncertainty in the euro area, weak global economic data and concerns over US fiscal policy. Most emerging market currencies appreciated in the second half of the year as risk appetite returned, in combination with US dollar weakness and strong equity inflows. Country-specific challenges resulted in further depreciation or sustained weakness in currencies including the rand, the Brazilian real and the Indian rupee.
Sentiment towards the rand was negatively affected by industrial action in the mining sector, the deterioration of the current account and credit ratings downgrades. The rand was among the worst-performing currencies in the fourth quarter of 2012. Overall, the average nominal trade-weighted rand was 8.6 per cent weaker in 2012 compared with a year earlier, and in real terms, about 5.7 per cent weaker.

Movements in the rand will continue to reflect global risk appetite and investor sentiment towards South Africa.

Figure 2.6 Trends in the rand and other emerging market currencies against the US dollar, 2010 – 2013

Source: Bloomberg

## Conclusion

Growth is expected to pick up over medium term as confidence returns and global conditions improve.

Growth is expected to be muted this year, and then to accelerate over the medium term. Macroeconomic stability continues to provide the platform for stronger and sustainable growth. South Africa’s economic prospects remain closely linked to global developments and are reliant on a rebound in business and investor confidence. The real economy is expected to strengthen gradually over the medium term. Government will work to improve investor sentiment, contributing to attracting the inflows required to fund the budget and current account deficits.

Implementation of the NDP will alleviate structural constraints, enabling the country to achieve sustained inclusive growth and broadening economic participation.